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Central Intelligence Bulletin

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Nº 040

6 June 1973

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Approved For Release 2003/08/27 : CIA-RDP79T00975A024600050001-3

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MONETARY DEVELOPMENTS: After falling to record lows in the Frankfurt, Zurich, and Brussels exchanges, the dollar staged a partial recovery late yesterday and closed only slightly below Monday's rates. Gold rose to a record level of \$127 in London before backing off to \$126, still up \$2.50 from yesterday.

As a consequence of the recent monetary flurry, Finland and South Africa have effectively revalued their currencies, in Finland's case by allowing the dollar to fall below its previous intervention point. This was done partly to restore the two currencies' relationships with appreciating European currencies.

Despite continuing depreciation of the dollar, there has been little central bank intervention. Ottawa purchased \$20 million last week to prevent the Canadian dollar from appreciating significantly from its present parity with the US dollar. The UK reportedly has also made some dollar purchases. Continuing high dollar demand in Japan, however, has forced Tokyo to resume its dollar sales in an effort to maintain the value of the yen. The sharp appreciation in the mark has left Tokyo in apparent violation of the spirit of the February and March currency settlements that provided for a greater appreciation in the yen than in the German mark in relation to the dollar.

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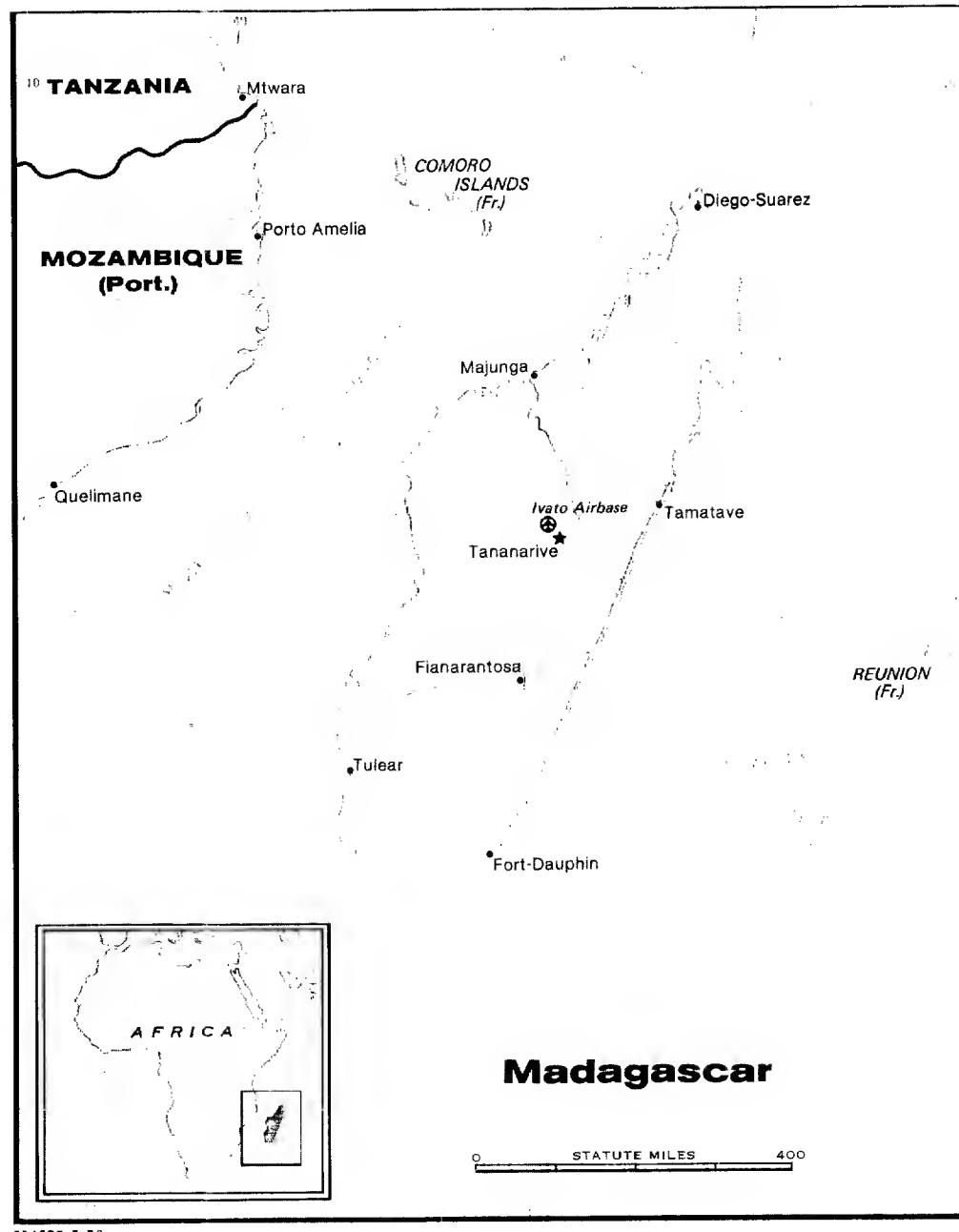
SWEDEN: The disunity among opposition parties may allow Prime Minister Palme to retain power despite present indications that his party will lose the September parliamentary elections.

By the end of May, 75 percent of the Swedish voters normally have decided whether to vote and for which party to vote. Recent polls indicate that the Social Democrats failed in their carefully planned effort to use the spring session of parliament to win back voter sympathy. The Social Democrats' citation of a 41-year record of responsibility is not easing public concern over a government that seems remote and bureaucratized, disorder in the streets, and indiscipline in the classrooms. Foreign policy issues do not loom large.

The opposition parties, pledged to attempt to form a non-socialist government, began the year by announcing a joint economic program intended to show they represented an alternative. Unity on economic issues prevailed in Parliament's general economic debate on 4 June. Cohesion, however, has eluded the opposition in other policy areas. In April, the Moderates (conservatives) sided with the government on foreign aid, in May the Center voted with the government on pension matters, and late in May both the Center and Liberals supported the government's defense budget. The opposition remained united against the government's regional program, a key election issue, but was unable to agree on an alternative.

The difficulty the opposition parties have in maintaining any unity reflects the fact that they compete against each other, as well as against the Social Democrats. The gains of the Moderate Party on the right have sent waves of anxiety through the Center and Liberal parties. The Center Party might even see advantage in forming a coalition with the Social Democrats. Parochial interests may yet, therefore, frustrate these parties' efforts to form a government, even should they together poll a majority.

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MALAGASY REPUBLIC - FRANCE: The two countries have recently concluded negotiations which allow France continued access for now to the important naval base at Diego-Suarez, but which loosen other ties.

Under new cooperation accords signed in Paris on 4 June, Madagascar will acquire sovereignty over Diego-Suarez, but the French Navy will retain the right to port facilities, renewable annually. The arsenal at Diego-Suarez will be placed under joint French-Malagasy control. Retention of Diego-Suarez was France's primary goal in the negotiations because of the base's key position on oil transportation routes across the Indian Ocean.

The French will evacuate their air base at Ivato, near Tananarive, and move the headquarters of the French south Indian Ocean forces from Ivato to Reunion Island, an overseas department of France. French troops stationed at Diego-Suarez and Ivato--some 3,350 men--reportedly will be progressively withdrawn before 1 September.

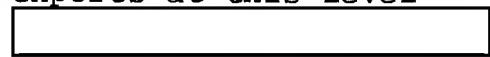
Madagascar announced last month it will withdraw from the franc zone. France was unwilling to concede the degree of monetary independence within the zone sought by the Malagasy. The Malagasy have stated publicly that their foreign reserves will be sufficient to maintain a strong financial position independently of French guarantees. If departure from the zone results in a reduction of French aid, Tananarive can be expected to seek increased assistance from other foreign governments, including the US.

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CANADA: Ottawa's exportable supplies of wheat for 1973-74 may be down by as much as three million tons, putting additional pressure on US supplies to meet increasing international demands. Although the outlook for Canada's wheat crop has been brightened by recent spring rains--it may be up nearly 20 percent from last year--carry-over stocks by the end of July will be at the lowest level in 20 years as a result of the record 16 million tons to be exported this year. Canadian officials will be reluctant in the coming year to maintain exports at this level and reduce stocks further.



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